

**REPORT OF THE AUDIT OF THE
JEFFERSON COUNTY
CLERK**

**For The Year Ended
December 31, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JEFFERSON COUNTY CLERK

**For The Year Ended
December 31, 2014**

The Auditor of Public Accounts has completed the Jefferson County Clerk's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statements present fairly in all material respects, the receipts and disbursements of the County Clerk and the receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Jefferson County Clerk had total receipts of \$178,879,124, which was a \$2,911,272 increase from the prior year. Except for reimbursed expenses in the amount of \$4,449,126 including Louisville/Jefferson County Metro Government contributions of \$3,119,006, the Clerk paid 25% of receipts to the Louisville/Jefferson County Metro Government in the amount of \$3,949,787. This was a decrease of \$122,902 from the prior year. In addition, 75% fund operating disbursements increased by \$1,230,320.

Lease Agreements:

Lease principal payments totaled \$6,580 as of December 31, 2014. Future principal and interest payments of \$43,607 are needed to meet these obligations.

Report Comments:

- 2014-001 The County Clerk Should Expend Public Funds Only For Necessary Expenses Of The Clerk's Office
- 2014-002 The Jefferson County Clerk's Election Center Should Not Provide Election Services For Private Entities

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS	7
NOTES TO THE FINANCIAL STATEMENTS	10
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	17
COMMENTS AND RECOMMENDATIONS.....	21
APPENDIX A: JEFFERSON COUNTY ATTORNEY LETTER TO STATE AUDITOR	
APPENDIX B: STATE AUDITOR LETTER IN REPLY TO JEFFERSON COUNTY ATTORNEY	



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Fischer, Mayor, Louisville/Jefferson County Metro Government
Honorable Bobbie Holsclaw, Jefferson County Clerk
Members of the Louisville/Jefferson County Metro Government

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying statement of receipts and disbursements - regulatory basis of the County Clerk of Jefferson County, Kentucky, the statement of receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Greg Fischer, Mayor, Louisville/Jefferson County Metro Government
Honorable Bobbie Holsclaw, Jefferson County Clerk
Members of the Louisville/Jefferson County Metro Government

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Clerk, as of December 31, 2014, or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the Clerk and the receipts, disbursements, and fund balances of the Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2015 on our consideration of the Jefferson County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Jefferson County Clerk's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

The Honorable Greg Fischer, Mayor, Louisville/Jefferson County Metro Government
Honorable Bobbie Holsclaw, Jefferson County Clerk
Members of the Louisville/Jefferson County Metro Government

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The County Clerk Should Expend Public Funds Only For Necessary Expenses Of The Clerk's Office
- 2014-002 The Jefferson County Clerk's Election Center Should Not Provide Election Services For Private Entities

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

August 27, 2015

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Fees For Services	\$	266,275
Louisville/Jefferson County Metro Government		3,119,006

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	18,079,241
Usage Tax		70,541,302
Tangible Personal Property Tax		64,890,555
Notary Fees		419,859

Other-

Marriage Licenses		163,709
Deed Transfer Tax		3,253,338
Delinquent Tax		12,557,772
Delinquent Taxes (Reimbursed)		1,299
		169,907,075

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		235,827
Real Estate Mortgages		295,527
Chattel Mortgages and Financing Statements		1,320,446
Powers of Attorney		38,559
Affordable Housing Trust		890,442
Shelter for Spouse Abuse		49,450
Bail Bonds		1,748
Fee for Library and Archives		124,098
Tax Liens		233,927
Extra Pages		894,729
Assignments		24,816
Releases		303,390
Probate		23,196
Lien Holder Penalties		7,644
Corporate and Business		32,620
All Other Recordings		29,368

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Receipts (Continued)

Fees Collected for Services:

Charges for Other Services-

Candidate Filing Fees	\$	15,318	
Legal Records - Clerk Expense (Reimbursed)		362,014	
Phone/Fax		4,523	
Postage		216,587	
Tracing		18,795	
Photostat		10,026	
Election Center Miscellaneous		6,667	
Motor Vehicle Miscellaneous		395,085	
Returned Check Fees		12,452	
Library		6	
Miscellaneous (Reimbursed)		<u>16,489</u>	\$ 5,563,749

Interest Earned		<u>23,019</u>
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Total Receipts		178,879,124
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	11,437,640	
Usage Tax		68,407,108	
Tangible Personal Property Tax		24,936,722	
Licenses, Taxes, and Fees-			
Delinquent Tax		1,083,609	
Legal Process Tax		529,576	
Affordable Housing Trust		<u>890,442</u>	107,285,097

Payments to Fiscal Court:

Tangible Personal Property Tax		7,404,732	
Delinquent Tax		2,332,715	
Deed Transfer Tax		<u>3,090,671</u>	12,828,118

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements (Continued)

Payments to Other Districts:

Tangible Personal Property Tax	\$ 29,958,813	
Delinquent Tax	<u>5,474,639</u>	\$ 35,433,452

Payments to Sheriff 941,015

Payments to County Attorney 1,678,415

Other Expenditures:

Bankcard Processing	449,202	
Library	<u>6</u>	<u>449,208</u>

Total Disbursements \$ 158,615,305

Net Receipts 20,263,819

Payments to State Treasurer:

75% Operating Fund *	16,298,489	
25% County Fund	<u>3,949,787</u>	<u>20,248,276</u>

Balance Due at Completion of Audit** \$ 15,543

* Includes reimbursed expenses in the amount of \$4,449,126 for the audit period.
See Note 1 of Notes to Financial Statements.

** See Note 12 of Notes to Financial Statements.

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2014

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2014 (Restated)	\$ 3,189,952	\$	\$ 3,189,952
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	16,298,489		16,298,489
Fees Paid to State - County Funds (25%)		3,949,787	3,949,787
Total Funds Available	19,488,441	3,949,787	23,438,228
<u>Disbursements</u>			
Louisville/Jefferson County Metro Government	2,466,989	3,949,787	6,416,776
Official's Statutory Maximum	117,329		117,329
Official's Catch Up Pay - 2013	72		72
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	3,910		3,910
Deputies' Salaries	8,391,756		8,391,756
Part Time Salaries	56,552		56,552
Overtime Gross	27,055		27,055
Employee Benefits-			
Employer's Share Social Security	612,662		612,662
Employer's Share Retirement	1,541,892		1,541,892
Employer's Share Health Insurance	1,599,709		1,599,709
Workers' Compensation	57,673		57,673
Unemployment Insurance	39,560		39,560
Employer's Paid Employee Assistance Program	6,143		6,143
Occupancy-			
Rent	77,760		77,760
Telephone	98,067		98,067
Gas/Electric	17,204		17,204

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements</u> (Continued)			
Occupancy- (Continued)			
Mileage and Gasoline-Delivery	\$ 26,482	\$	\$ 26,482
Maintenance and Repairs	432,414		432,414
Services-			
Personal Services	247,761		247,761
Security Services	107,737		107,737
Janitorial Services	101,166		101,166
Temporary Services	25,806		25,806
Printing	385,512		385,512
Advertising	205,002		205,002
Election Worker Payments	707,942		707,942
Supplies-			
Postage and Delivery	212,461		212,461
Office Expense	181,236		181,236
Minor Equipment-			
Rental Equipment	39,875		39,875
Automotive Rental	14,084		14,084
Travel and Entertaining-			
Meetings	3,035		3,035
Seminars	919		919
Tuition	934		934
Other Operating-			
Insurance and Bonds	65,138		65,138
Returned Check Expense	39,509		39,509
Notary Bonds	1,564		1,564
Membership Dues	19,145		19,145
Subscriptions	12,829		12,829

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements</u> (Continued)			
Capital Outlay-			
Office Equipment	\$ 70,424	\$	\$ 70,424
Computer Equipment	257,040		257,040
Computer Software	371,335		371,335
Furniture and Cabinets	93,287		93,287
Remodeling and Renovations	685,929		685,929
Vehicles	61,942		61,942
Total Disbursements	19,488,441	3,949,787	23,438,228
Prior Audit Disallowed Disbursements	(3,845)		(3,845)
Current Year Disallowed Disbursements	(284)		(284)
Total Allowable Disbursements	19,484,312	3,949,787	23,434,099
Fund Balance - December 31, 2014	\$ 4,129	\$ 0	\$ 4,129

The accompanying notes are an integral part of the financial statements.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2014

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

The County Clerk's contribution for calendar year 2012 was \$1,566,795, calendar year 2013 was \$1,582,356, and calendar year 2014 was \$1,541,892.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

JEFFERSON COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2014
 (Continued)

Note 2. Employee Retirement System (Continued)

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(Continued)

Note 4. Kentucky Local Records Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$32,064. No grant funds were expended during calendar year 2014.

Note 5. Lease Agreements

The Office of the County Clerk was committed to the following lease agreements:

Item Leased	Payment	Term Of Agreement	Ending Date	Principal Balance 12/31/14
CashLINK Machines	\$ 2,921	60 months	8/1/2015	\$ 25,488
Postage Meter	2,760	48 months	7/1/2015	8,280
Postage Meter	423	48 months	11/1/2017	5,079
Copier	476	60 months	11/1/2015	4,760
Totals				<u>\$ 43,607</u>

Note 6. Rental Agreements

The Jefferson County Clerk was party to several rental agreements for copiers during fiscal year 2014. These agreements were on a month-to-month basis and could be terminated at any time.

Note 7. Going Out Of Business Account

This account is used for deposits made by companies who must post a bond when they have a going out of business sale. After the sale, the bond may be released to the company. The account had a beginning balance of \$17,944, receipts of \$7, and disbursements of \$1,007 for calendar year 2014. The account had a balance of \$16,944 as of December 31, 2014.

Note 8. Bankruptcy Account

This account is used for bankruptcy payments from the Chapter 13 bankruptcy trustee. The payments from the trustee are for tangible property tax due to the state or clerk or for delinquent property tax owed. The account had a beginning balance of \$79,155, receipts of \$38 in interest, and disbursements of \$38 during calendar year 2014. The account had a balance of \$79,155 as of December 31, 2014.

Note 9. Delinquent Tax Escrow Account

This account is used to account for funds received when a third party purchases a delinquent tax bill but cannot be located by the property owner when the property owner attempts to pay the bill. The Clerk accepts payment for the bill and keeps this money in escrow for the third party purchaser. The account had a beginning balance of \$14,582, receipts of \$5,688, and disbursements of \$1,588 for calendar year 2014. The account had a balance of \$18,682 as of December 31, 2014.

JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(Continued)

Note 10. Outstanding Checks Escrow Account

This account is used to account for unclaimed checks written by the Clerk that are still outstanding after a period of time. The Clerk periodically moves the funds from the fee account to this account to facilitate balancing and to provide the necessary tracking of this unclaimed property. After three years, the Clerk will send these funds to the State Treasury as property assumed abandoned, per KRS 393.090 and 393.110. The account had a beginning balance of \$22,421, receipts of \$4,819 and disbursements of \$23,453 for calendar year 2014. The account had a balance of \$3,787 as of December 31, 2014.

Note 11. Discretionary Fund Bank Account

The Clerk has established a discretionary account as provided by KRS 64.345. This fund is used to cover additional expenses related to extraordinary office expenses in amounts authorized by the approving authority. The account had a beginning balance of \$28,420, no receipts, expenditures of \$525 and an ending balance of \$27,895 as of December 31, 2014.

Note 12. Balance Due At Completion Of Audit and Fund Balance

The balance due of \$15,543 on the Statement of Receipts and Disbursements (1st financial statement) is the result of the Clerk's underpayment of usage tax to the state for 2014 due to overpayments in previous years. The total credit balance at December 31, 2013 was \$15,543, reduced by \$15,543 during 2014, leaving a credit balance with the state of \$0 at December 31, 2014. These funds were in the Clerk's local bank account at year end. The Clerk's local bank account has a reconciled balance of \$45,183 at December 31, 2014. These funds should be turned over to the Louisville/Jefferson County Metro Government.

The Fund Balance of \$4,129 on the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer (2nd financial statement) is due to disallowed disbursements. After repayment, the balance should be turned over to the Louisville/Jefferson County Metro Government.

Note 13. Restatement Of Beginning Fund Balance

The beginning fund balance of the 75% Operating Fund on the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer was increased by \$21,613 to include the collection of payments for non-sufficient fund checks from prior years.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Fischer, Mayor, Louisville/Jefferson County Metro Government
The Honorable Bobbie Holsclaw, Jefferson County Clerk
Members of the Louisville/Jefferson County Metro Government

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements - regulatory basis of the Jefferson County Clerk for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated August 27, 2015. The County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Jefferson County Clerk's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jefferson County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jefferson County Clerk's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001 and 2014-002.

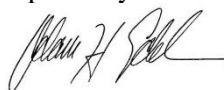
County Clerk's Responses to Findings

The Jefferson County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The Jefferson County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, according we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 27, 2015

COMMENTS AND RECOMMENDATIONS

JEFFERSON COUNTY
BOBBIE HOLSCLAW, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

STATE LAWS AND REGULATIONS:

2014-001 The County Clerk Should Expend Public Funds Only For Necessary Expenses Of The Clerk's Office

The Clerk expended \$284 for items not considered allowable expenses of a County Clerk's office. Three checks tested were made payable to Sam's Club and included receipts for candy purchases and totaled \$284. Supporting documentation for these expenditures noted that the purchases were for "parade candy." All expenditures of the Clerk's fee account should be necessary for the operation of the Clerk's office, should not be personal in nature, and should be adequately documented. Good internal controls dictate that the Clerk should monitor expenditures to ensure compliance with state laws and regulations. In Funk vs. Milliken, 317 S.W.2d 499 (KY 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary for the operation of the office, adequately documented, reasonable in amount, beneficial to the public, and not predominately personal in nature. We recommend the Clerk ensure that all expenditures are reasonable and necessary for the operations of the office and not predominately personal in nature. We also recommend the Clerk repay \$284 with personal funds to the 2014 fee account.

Further, in the calendar year 2011 audit, auditors noted \$3,845 in expenditures that were not considered allowable expenses of a County Clerk's office. These expenditures were personal in nature or not supported with adequate documentation. These expenditures have not been reimbursed to the fee account by the County Clerk. We recommend the County Clerk also reimburse the official fee account \$3,845 for disallowed expenditures from the calendar year 2011 audit.

County Clerk's Response: Last year, the Jefferson County Clerk's Office provided a response to the same comment as Comment 1 in this review. The 2011 and 2012 Audits erroneously listed two expenditures as unnecessary and recommended reimbursement. The 2014 Audit continues to list the exact same expenditures, albeit, one year older. The Clerk's Office disagrees that providing people and equipment to polling places is not a necessary part of its mandate.

The Clerk's Office again stresses that those expenditures (which were gas for vehicles used for Election Day activities to get people and equipment to and from polling places and AAA membership for towing services and repairs) had passed every previous audit and were completely necessary and proper. There was never a question that they were necessary for performing the constitutionally required work of the Clerk's Office. Additionally, these expenditures had been approved by the Commonwealth of Kentucky Finance and Administration Cabinet, County Fees Branch and Louisville Metro Government which reimbursed the Clerk's Office for some of the expenditures as election costs. Funk v. Milliken allows Louisville Metro Government to approve such categories of reasonable official expenses. Furthermore, as explained last year, the expenditures were proper expenditures that did not come from the Fee Account and thus were not subject to the Audit which is titled by the State Auditor's Office as the "Fee Account Audit."

As stated last year, the Clerk's Office examined different procedures for purchasing gas and contracted for tow services or repairs on an as-needed basis. With those changes, the same expenditures were dealt with in a manner acceptable to the auditors. Because the 2011 expenditures were approved when made and spent entirely on the work of the Jefferson County Clerk's Office, they were necessary, allowable and proper and will not be reimbursed.

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2014-001 The County Clerk Should Expend Public Funds Only For Necessary Expenses Of The Clerk's Office (Continued)

County Clerk's Response: (Continued)

This issue was also reviewed by the Jefferson County Attorney in 2012, and the matter concluded in favor of the JCCO.

The new item for \$284 that has been added as an unnecessary expense has passed all previous audits. "Parade candy" has been distributed by County Clerks across the Commonwealth as well as other elected officials for many years. This year, the Auditor's office has decided that this is not an allowable expense. It would be most beneficial if they would provide advanced notice of items that will no longer be allowable instead of after the fact in an audit comment. The Jefferson County Clerk's Office will discontinue the use of "parade candy" effective immediately as our intent is to be compliant in every aspect of expenditures.

Auditor Reply: In its response, the Clerk's office indicates that the expenditures noted in the finding were "erroneously" listed as unnecessary in 2011 and that they have passed every previous audit. The APA disagrees with this characterization, as the expenditures in question were subject to standard audit procedures and correctly identified as unallowable in the 2011 audit. Further, these expenditures were not discovered in previous years' audits. The Clerk's office response states that some of the expenditures were reimbursed by Louisville Metro Government as election costs. However, the prepaid gas cards and the AAA memberships were purchased through the Fee Account and regardless of whether the expense was reimbursed, there is an expectation that election expenses, like all expenses of the Clerk, are necessary and reasonable to carry out the functions of the office. Further, the Clerk has a responsibility to ensure that internal controls exist to reduce the risk of fraud or abuse.

The 2011 finding identified the Clerk's office did not maintain sufficient documentation to show that the gas cards were used for their intended purposes and that the AAA memberships for employees were predominantly personal in nature, as they provided a personal benefit to the employees. For this reason, the expenditures will continue to be included in audit reports as unallowable until reimbursed by the Clerk. As stated in the Auditor's Reply to Comment 2012-01 and 2013-01, we disagree with the statement in the Clerk's response that the Jefferson County Attorney "concluded in favor of the JCCO." Please refer to the State Auditor's response to the Jefferson County Attorney in Appendix B.

Further, while other clerks and public officials may have distributed parade candy for many years, as noted in the Clerk's response, this action does not mean that the expenditures would not be disallowed if noted during an audit. An audit does not include testing of every transaction that occurred during the audit period, but rather a sampling of transactions. As such, there will be expenditures that seem to "pass" an audit because they were not selected for testing. This does not validate those untested transactions. Contrary to the Clerk's response, the APA has disallowed parade candy and similar expenditures in other county clerk audits.

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2014-002 The Jefferson County Clerk's Election Center Should Not Provide Election Services For Private Entities

In the 2011 audit exit conference, it was noted that the Clerk's Election Center provided election services, for a fee, to private entities, such as unions and churches. The activity continued in 2012, 2013 and 2014. These services included preparation of ballots, delivery of the publicly owned voting machine to the private entity's location, monitoring of the private entity's election by a deputy clerk, tallying the votes and providing election results. By continuing this activity, the Clerk is allowing the use of public equipment and personnel for a private entity's private purposes, and is charging a fee for a service where the fee is not authorized by statute. Per KRS 64.410(2)(b), a clerk, as a fee officer, may not receive for her services any fee for services rendered when the law has not fixed a compensation. Further, public equipment and personnel may be used only for a public purpose, and such use by a private entity is prohibited by Ky. Const. Sec. 171, as interpreted in OAG 84-190. We recommend the Clerk comply with KRS 64.410 and the Kentucky Constitution and discontinue providing and charging a fee for election services to private entities for the private purposes of those entities.

County Clerk's Response: Last year, the Jefferson County Clerk's Office provided a response to a comment almost identical to this Comment 2. The Jefferson County Clerk provides election services as required by KRS Chapter 117 and complies with all requirements of Kentucky law in so doing. These services are not performed using fees from the Clerk's Fee Account which is the account examined in this Audit nor do they fall under KRS Chapter 64 or Ky. Const. 171.

This practice has occurred for over 50 years. Many County Clerks offer the same services. The provision of election services provide a public service in educating voters, demonstrating the integrity of the voting system and providing valuable training and testing for election personnel and equipment. Use of the machines in election introduces potential voters to the process. It is such a good learning tool that the Kentucky State Board of Elections strongly promotes using voting machines and election personnel for mock elections for school children.

The voting machines are not paid for out of the Clerk's Fee Account but rather are purchased by Louisville Metro Government under KRS 117.377. The entities requesting the service reimburse the Clerk's Office for the equipment and for any hours that any Clerk's Office employee spends on the election. If the entities requesting the services did not reimburse the Clerk's Office, there is no doubt that this audit would criticize that practice as well.

The Audit's reliance to Kentucky Constitutional Section 171 is misplaced as that section covers the use of taxes for public purposes and no taxes are collected in this case. The Audit's citation to OAG 84-190 is puzzling because it supports the Clerk's Office use of the equipment as it holds that using county property on private land is permissible if it serves a public purpose. Voter education, election promotion and training are public purposes, according to OAG 92-87. In that opinion, the Attorney allowed a public office to donate public money to a charitable organization for voter education. OAG 92-87 states "We have no hesitation in concluding that increasing voter education, participation, and registration represent a valid public purpose." OAG 86-23 opines that a public entity may benefit a private entity if the purpose is a public one.

JEFFERSON COUNTY
BOBBIE HOLSCLOW, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2014-002 The Jefferson County Clerk's Election Center Should Not Provide Election Services For Private Entities

County Clerk's Response: (Continued)

This matter was also reviewed by the Jefferson County Attorney two years ago and the matter concluded in favor of the Clerk's Office.

Auditor's Reply: While using Clerk's deputies and voting machines to conduct mock elections for school children at schools is a valid, educational use of personnel and equipment, that activity is not the activity at issue in the audit comment. The use of Clerk's deputies and equipment for private companies, unions, and churches to conduct actual, not mock, elections for those entities is the activity at issue. Providing these election services for private organizations does not constitute a public purpose, such as voter education. It only benefits those private organizations receiving the services. Further, because deputies' salaries are paid from the fee account and the fees paid by the private entities are processed through the Clerk's accounting system, the activity is subject to the fee account audit and should comply with all applicable laws and regulations. In addition, whether the voting machines were purchased by the Clerk's account directly or by Louisville Metro Government, they are considered to be public equipment and are subject to the same restriction on use for private purposes.

APPENDIX A: JEFFERSON COUNTY ATTORNEY LETTER TO STATE AUDITOR

APPENDIX A: JEFFERSON COUNTY ATTORNEY LETTER TO STATE AUDITOR



MIKE O'CONNELL
JEFFERSON COUNTY ATTORNEY

600 W. Jefferson Street, Suite 2086
Louisville, KY 40202

(502) 574-6336
Fax (502) 574-5366

Julie Loft Hardesty
First Assistant

October 31, 2012

Hon. Adam Edelen
Kentucky Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601

Re: Jefferson County Clerk's Office 2011 Fee Account Audit

Dear Mr. Edelen,

This office is in receipt of your office's audit of our client, Jefferson County Clerk Bobbie Holsclaw, for the year ending December 31, 2011, that is required to be sent to the County Attorney in accordance with KRS 43.090(2). I want to emphasize "our client" because it is the Jefferson County Attorney's statutory duty to provide legal representation to the various Jefferson County officers per KRS 69.210(3). In any event, our office has reviewed the audit, especially the "Comments and Recommendations" that include the Jefferson County Clerk's responses to same. Based upon that review, it appears that there is a departure from past audits for Ms. Holsclaw's office. In this regard, we note that the first two "Comments and Recommendations", designated 2011-1 and 2011-2, have been "referred to the Louisville/Jefferson County Ethics Commission and the Jefferson County Attorney's Office for determination whether further investigation by their offices is warranted". It is with respect to these "referrals" that we would like to comment

Unlike Commonwealth's Attorneys, County Attorneys do not have, and have never been statutorily authorized to have, an investigative arm. Even if this office had the authority and resources to hire an investigative team and chose to entirely disregard the Jefferson County Clerk's responses to items 2011-1 and 2011-2, we are of the opinion our statutory duty of representation and on-going attorney-client relationship with Ms. Holsclaw on various matters would ethically preclude our office from doing so. Moreover, given the Auditor of Public Account's historical silence, if not tacit approval, regarding the policies and procedures now being rejected by your auditors, referral to the Ethics Commission certainly appears unwarranted. Even so, please understand that the Metro Ethics Commission is authorized only to act upon *sworn complaints* and not mere "referrals"; see, Louisville Metro Code of Ordinances §21.06.

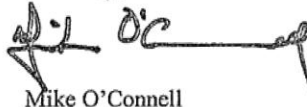
APPENDIX A: JEFFERSON COUNTY ATTORNEY LETTER TO STATE AUDITOR
(Continued)

Letter to Hon. Adam Edelen
Page 2

Like Ms. Holsclaw, this office is particularly concerned by your staff's determination in item 2011-2 that public agencies are prohibited from participation in charitable activities that have historically enhanced the public's health and welfare. It is unnecessary to reiterate the valid points made in Ms. Holsclaw's persuasive response to this issue. Suffice it to say that in addition to practically every regular and volunteer fire department within the Louisville Metro area and the seven surrounding counties that annually solicit contributions from the public, there are literally dozens of local governments and other public agencies here and throughout the state that have been committed to the Crusade for Children and the Metro United Way for decades without the slightest hint of criticism or question of legality. It is not an exaggeration to say that the "no solicitation" policy in your staff's recommendation would endanger the partnership the Crusade, Metro United Way, and many other worthy charities enjoy with local governments and other public agencies. The end of such an important partnership would mean the loss of literally millions of dollars in donations to many extraordinarily worthwhile charities that serve the public interest.

Our review on behalf of our client is consistent with our obligations as set forth in The Kentucky Rules of Professional Conduct contained in SCR 3.130, *et seq.*

Sincerely,



Mike O'Connell
Jefferson County Attorney

cc: Bobbie Holsclaw, Jefferson County Clerk

APPENDIX B: STATE AUDITOR LETTER IN REPLY TO JEFFERSON COUNTY ATTORNEY

APPENDIX B: STATE AUDITOR LETTER IN REPLY TO JEFFERSON COUNTY ATTORNEY



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

November 8, 2012

Mike O'Connell
Jefferson County Attorney
600 W. Jefferson Street, Suite 2086
Louisville, KY 40202

Dear Mr. O'Connell:

I am in receipt of your letter dated October 31, 2012, regarding our referral to your office of findings in the Jefferson County Clerk's 2011 Fee Audit. I have found the response to our referral to be deeply frustrating because it in no way accurately reflected the nature of the findings in our report. Although I understand your advocacy for the position of your client, my office represents the taxpayers and I have the responsibility to ensure funds are handled in a manner that complies with state law.

First, let me clarify that there has been no departure in audit policy from previous audits of the Jefferson County Clerk. Although the Clerk has indicated she believes this to be the case, we have repeatedly stated that every audit year stands alone. This means that any new matters identified during an audit are not off limits just because previous auditors didn't come across the problem. This is simply an attempt to divert attention from the problems at hand.

Also, other matters addressed in your letter are misleading, and in some instances completely false. Although we attempted to clarify many of these misleading comments in our report and/or directly with the Clerk's office, it was clear upon the receipt of your letter that continued clarification is needed.

Finding 2011-2 does not state that "public agencies are prohibited from participation in charitable activities that have historically enhanced the public's health and welfare." That is a position of the Clerk, as noted in her response to the finding. It is troubling that the primary purpose of this finding was overlooked. The finding reported serious problems in the Clerk's accounting for the funds collected for charitable purposes. Recordkeeping was not sufficient to verify the total amount collected for the various charities, funds contributed to charities were used to purchase personal items such as t-shirts and employee lunches, and funds solicited for one charity were not remitted to the charity. It is hard to believe that in light of these circumstances your letter states that *audit policies* endanger the partnership charities have with public agencies. It is my view that this type of mishandling of funds not only damages those partnerships directly, but could also damage the public's trust by drawing into question whether their donations are getting to the charities.

209 ST. CLAIR STREET
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AN EQUAL OPPORTUNITY EMPLOYER M/F/D



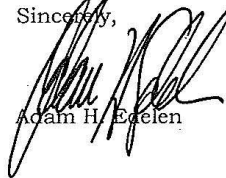
APPENDIX B: STATE AUDITOR LETTER IN REPLY TO JEFFERSON COUNTY ATTORNEY
(Continued)

There also continues to be confusion regarding the role of an auditor. As noted in the report, the auditor does not establish "policy," as you suggest in your letter. The auditor has an obligation to review activities of the clerk for compliance with statutory and constitutional requirements. Finding 2011-2 indicates both KRS 64.410 and Section 179 of the Kentucky Constitution appear to prohibit the Clerk, a fee officer, from either selling yard signs and head cut-outs to the public and donating the proceeds to private charities, or from soliciting donations from the public for the benefit of private organizations. Our referral to your office was to offer you the opportunity to assist your client in investigating and interpreting the statutory and constitutional requirements of her office, not to initiate legal or ethical proceedings against her as has been suggested. Advising your client on statutory and constitutional matters relevant to her office, as well as assisting in interpreting those requirements for specific circumstances, should be well within the purview and capacity of your office.

Because of the continued misrepresentations of our report, I want to reiterate the report does not address public solicitation for charitable purposes by firefighters, state agencies, or any other entity, but specifically addresses requirements of county clerks as fee officers. The report also does not address solicitation for charitable purposes from employees, and even clarifies this in an auditor's reply to the finding, which seems to have been largely ignored. But, I want to be clear that even if statutes and constitutional provisions are interpreted to permit this activity by county clerks, this office will not turn away from reporting serious accounting and internal control weaknesses such as those identified in the report.

Please do not hesitate to contact our office, if we can help clarify any other issues regarding this or any other matter.

Sincerely,



Adam H. Eichen

AHE/mlg

